

**FISCAL YEAR 2006
INTENDED USE PLAN

FOR THE

CLEAN WATER STATE REVOLVING LOAN FUND PROGRAM
LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY**

Submitted to the
U.S. Environmental Protection Agency
Region 6

Prepared by the
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I. INTRODUCTION

This document is the State of Louisiana's Amended Intended Use Plan (the "IUP"), prepared by the Financial Services Division (the "Division") of the Louisiana Department of Environmental Quality (the "Department"). It is for all funds available to Louisiana's Clean Water State Revolving Loan Fund (the "CWSRF") during Fiscal Year (the "FY") 2006. The Department is continuing a long range plan to protect the future health of the CWSRF while providing financial assistance for wastewater collection and treatment infrastructure and other eligible environmental improvements to Louisiana communities.

This IUP is based on FY06 sources of funds of \$163,675,076, and uses of funds of \$163,675,076 (See FY06 Chart 2, Sources and Uses). Available revenues consist of the cash balance forward from the previous year, federal grants, state matching funds, interest earnings on loans and investments, and principal repayments. It is our plan to use the FY06 revenues to provide below market rate loans on eligible projects, to protect human health, to improve the water quality and economic viability of Louisiana's rivers, lakes and groundwater, to assist in hurricane recovery, and to administer the CWSRF program. As hurricane loans become active it may be necessary to leverage the program to meet demand.

II. LIST OF PROJECTS

The CWSRF has provided financial assistance totaling \$426,225,324 as of April 4, 2006 and has signed or is in the process of signing binding commitments for \$87,720,000 (See Chart 1, Loans Closed/Commitments). In FY06, it is anticipated that the CWSRF will provide funds for seven (7) projects totaling approximately \$87,720,000. See FY06 Chart 4, Uses of Funds, and the anticipated FY06 Loan Closings chart below. These municipalities are on the current CWSRF Priority List, and have submitted or are in the process of preparing a Facility Plan required for participation in the program. These loans will be funded with the FFY 2005 and 2006 allotments, applicable state match, loan repayments, and interest earnings.

ANTICIPATED 06 LOAN CLOSINGS	
Baton Rouge #2	\$ 15,000,000.00
Crowley #4	\$ 1,500,000.00
Lafayette #2	\$ 17,500,000.00
Mansura	\$ 1,270,000.00
New Orleans Water and Sewer Bd. #1	\$ 50,000,000.00
Westwego	\$ 2,000,000.00
Winnfield	\$ 600,000.00
	<u>\$ 87,870,000.00</u>

The status of the National Municipal Policy (NMP) projects in this Intended Use Plan will not be affected by the work contemplated. All of the projects listed on the NMP List have been previously funded; these projects are in compliance, are on an enforcement schedule, or have an enforcement action filed.

The State's Project Priority List consists of a listing of all projects that have, or are expected to

qualify for, and participate in the program (See the FY06 Priority List). These projects are ranked by staff in the engineering section, given a priority rating, and then listed in alphabetical order on the current fiscal year Priority List. Loans are approved from this list on a readiness to proceed basis. Should total actual project needs exceed CWSRF funds available, projects to be funded will be prioritized according to the Priority System. Procedures will be established by the Division, with EPA approval, to sell bonds to expand the program, or develop other procedures that are in the best interest of the Louisiana CWSRF program.

III. GOAL STATEMENTS

A. Long-Term Goals

The CWSRF continues to maintain long-term goals to ensure it assists the State in meeting water quality goals and ensure the long-range integrity of the fund.

1. To achieve statewide compliance with Federal and State water quality standards by providing financial assistance to municipalities and other qualified recipients.
2. To promote expanded eligibility under Title VI of the Clean Water Act that allows financial assistance for additional project categories. These additional project categories include non-point sources, reconstruction of facilities, facilities needed to accommodate population growth, estuary, and groundwater-related needs.
3. To maintain the fiscal integrity of the Fund and to assure its continuous enhancements in perpetuity through maintaining net assets equal to federal capitalization grants and state matching funds and the use of a cash flow modeling plan.
4. Reduce the fund's cash balance by assigning one or two large loans (\$10,000,000 or over) to draw construction funds from cash rather than grant funds. This will be reviewed annually to maintain balance between these two sources.

B. Short-Term Goals

The Department will pursue the following short-term goals in an effort to continually improve the CWSRF program.

1. To promote the benefits of the program to as many communities, as possible, including those impacted by Hurricanes Katrina and Rita, we are working with the Louisiana Municipal Association, the Louisiana Police Jury Association, Rural Utility Service and Community Development Block Grant and the Louisiana Recovery Authority to identify prospective borrowers and gaps in needed financing. This also included participation in the Federal Funding Open House held at LDEQ.
2. To offer more favorable financing terms by offering:
 - a. rates based on the Baa 20-year bond rate determined from the "Bond Buyer Index" the week prior to the loan closing; this rate would move upward each year until it reaches the cap of 3.95 percent;
 - b. a reduction of costs by allowing borrowers to utilize the services of our bond counselors to provide all documentation, proceedings and opinions, allowing the borrower to save approximately one third of the bond counsel fees, if they so choose.

- c.a lower rate (from .50% to our current rate of 3.95%) to areas affected by Hurricanes Katrina and Rita.
3. To work to assure coordination of activities between the CWSRF and the LDEQ Enforcement section to bring at least five communities listed in this plan into compliance in accordance with Section 301(I) (I) of the Act.
 4. To participate in a pilot program to identify environmental benefits gained from the CWSRF program by filling out the Environmental Benefits one-page worksheet recently developed with ASWIPCA to satisfy the mandatory output/outcome requirements of EPA Order 5700.7. Completed worksheets for the three loans already closed and the seven loans to be closed during the year will be submitted to EPA Region 6 along with the current Annual Report.
 5. Secure six binding commitments and eight loan agreements for the projects identified for assistance on page one of this IUP.
 6. Apply for and secure approval of the FY 2006 allotment.

IV. INFORMATION ON CWSRF ACTIVITIES

- A. Communities Served and Financial Assistance Provided - Loans and refinancing of debt are the only types of assistance provided. Both large and small communities have expressed interest in loans and one has participated in debt refinancing.
- B. Allocation of Funds - Projects are funded on a first come, first served basis. In the event that projects identified for funding in this IUP are unable to proceed, these delayed projects will be bypassed and other projects from the Project Priority List that are ready to proceed will be funded.
- C. CWSRF Loan Rate - The present permanent CWSRF finance charge on all CWSRF loans is 3.95% and is stated in loan documents as 3.45% interest plus a 0.50% administrative fee charged only on loan monies drawn. The present CWSRF rate was set by the Secretary of the Department on December 20, 1996. A new variable rate based on the Baa 20-year bond rate listed in the "Bond Buyer Index" one week prior to loan closing was introduced during FY05. The .50% administrative fee is added to this rate to determine the total rate charged. The rate is adjusted annually in accordance with the rates forecast by the "Index" at the closing date. This new rate allows a lower rate during the early construction years and has been utilized on all loans closed beginning with FY05. As an example, New Iberia 3 that closed in September, 2005, has a variable rate beginning at 2.04% and reaching 3.45% in six years, East Baton Rouge 1 that closed in November, 2005, began at 2.35% and will reach 3.45% in 4 years, Monroe 4 that closed in June, 2005, began at 3.18% and will reach 3.45% in 2 years. A reduced rate of as low as zero, with a half percent charged to cover administrative costs, is being considered for certain communities impacted by the hurricanes and will be offered when approved by the Secretary. The financial staff reviews the prevailing market rates found in the "Bond Buyer Index" and makes recommendations to the Secretary for changes. Actual changes are made when the Secretary deems them to be appropriate.
- D. Administrative Costs of the CWSRF - The Department, intends to use an amount equal to up to 4% of federal grant funds (\$858,780) from allotment 5 and 6 for administrative support. Additional monies for administrative costs of the CWSRF program will also be

generated from the Department's 0.50% administrative fees charged on all loans or supplied by other state funds if needed. The State's Administrative Fees Fund is held outside the SRF Fund and at March 1, 2006 had a balance of \$9,904,663

- E. Enforcement Orders - The CWSRF currently works closely with State and Federal enforcement officials to implement long-term goals and help communities comply with Federal and State water quality standards.
- F. Cash Management - The Louisiana Department of the Treasury manages the investment of the CWSRF cash in the same manner as cash and reserves for other agencies and programs. Investments, by State law, are limited to government securities, collateralized bank certificates of deposit and like instruments. No changes to investment vehicles are presently contemplated.

V. ASSURANCES AND SPECIFIC PROPOSALS

The Louisiana Department of Environmental Quality provides the necessary assurances and certifications as part of the Operating Agreement between the State of Louisiana and the U.S. EPA. This includes the requirements of the following sections of the law:

- 602(b)(2) State Matching Funds - The State of Louisiana agrees to provide match monies in an amount equal to 20 percent of each grant payment. The State of Louisiana will fund the required State Match by using State General Fund appropriations, Capital Outlay appropriations, tobacco settlement funds and bond proceeds. The State will deposit sufficient cash match into the CWSRF to meet its proportionate share requirement prior to drawing federal funds in accordance with 40 CFR 35.3135(b)(1).
- 602(b)(3) Binding Commitments - The State of Louisiana will enter into binding commitments for 120% of each quarterly payment within 1 year of receipt of that payment.
- 602(b)(4) Expeditious and Timely Expenditures - The State of Louisiana will expend all funds in the CWSRF in a timely and expeditious manner as required by this section and acknowledged in our Operating Agreement.
- 602(b)(5) First Use for Enforceable Requirements - The State of Louisiana confirms that any publicly owned treatment works previously identified as part of the National Municipal Policy (NMP) universe are either in compliance, on an enforcement schedule, have an enforcement action filed, or have a funding commitment from a prior year.
- 602(b)(6) Compliance with Equivalency Requirements - The State of Louisiana agrees to meet the specific statutory requirements (Title II) for publicly owned wastewater treatment projects constructed in whole or in part before FFY 1995. Projects funded after FFY 1995 will meet applicable (non-Title II) equivalency requirements.
- 40 CFR 35.3140 Environmental Reviews - The State of Louisiana will conduct environmental reviews as specified in the Project Review Procedures of the Operating Agreement and 40 CFR 35.3140.

VI. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

- A. State Revolving Fund (SRF)

The staff of the Financial Services Division will perform fiscal analyses to determine the amount of funding to be available. The State's Project Priority List is utilized to obtain SRF funding. Projects are funded on a first come, first served basis. The Project Priority system will be revised to accommodate demand and community needs in excess of the financial resources readily available to the program. The Project Priority List is an integral part of the IUP, and subject to Federal approval. Future IUPs will incorporate any revisions with detailed explanations.

1. Sources of Funds Available for Loans and Administration – FY06 Chart 2 identifies Louisiana's total funding sources for FY2006. \$163,675,076 in resources will be available to the State of Louisiana's CWSRF in FY2006 including federal capitalization grants, state matching funds, interest earnings and loan repayments.
2. An application for the FFY2006 Capitalization Grant is attached and the breakdown is as follows:

FFY05 Allotment	\$11,845,800
FFY06 Allotment.	\$ 9,623,700
20% State Match	<u>\$ 4,293,900</u>
Total Funds	\$25,763,400
Administration (up to 4%)	<u>(\$ 858,780)</u>
Total Funds for Loans	\$24,904,620

3. FFY2006 Capitalization Grant Payment Schedule:

The EPA Administrator, or his duly authorized representative, and the State of Louisiana shall jointly establish a schedule of payment under which the EPA Administrator, or his duly authorized representative, will pay to the State of Louisiana the amount of each grant to be made to the State under Title VI of the Act. This schedule shall be based on the State's IUP under Section 606(c) of the Act, except that:

- such payments shall be made in quarterly installments, and
- such payments shall be made as expeditiously as possible.

These payments shall be made by the EPA Administrator, or his duly authorized representative, to the State of Louisiana based upon disbursement schedules for all awarded Capitalization Grants (See Chart 6 - EPA Payment Schedule & Binding Commitment Schedule by Federal Quarters). The capitalization grant payment schedule is as follows:

1 st Installment -	\$ 3,948,600	2 nd QTR. FFY 07
2 nd Installment -	\$ 3,948,600	3 rd QTR. FFY 07
3 rd Installment -	\$ 3,948,600	4 th QTR. FFY 07
4 th Installment -	<u>\$ 9,623,700</u>	1 st QTR. FFY 08
TOTAL	<u>\$21,469,500</u>	

4. Disbursement Schedule -Seven (7) projects were identified as fully or partially applicable to the FFY 2005 and FFY 2006 allotment (Crowley 4, East Baton Rouge 2, Lafayette 1, Mansura, New Orleans Water and Sewer Board 1, Westwego, and Winnfield on tract to close within the next few

months). Louisiana's disbursement schedule is based on estimated project construction dates and projected EPA/ACH payment drawdowns from current grants, anticipated allotments and cash balances available for these projects.

VII. PUBLIC REVIEW AND COMMENT

A public hearing to present this IUP and Priority List was held on April 3, 2006 at 10:00AM in Room 919, Galvez Building, at the Department of Environmental Quality, 602 North Fifth Street, Baton Rouge, LA 70802. A copy of the IUP and Priority List was made available for public review and comment between February 28th and April 3rd and written comments will be accepted through close of business, April 3, 2006. (See copy of public notice below.) Any comments received will be duly considered and will be provided to EPA. A copy of the transcript of the public hearing will be provided.

PUBLIC NOTICE

Notice is hereby given that the Financial Services Division, Loan Section of the Louisiana Department of Environmental Quality (LDEQ) is applying for approval of the State Revolving Loan Amended FY06 Project Priority List (PPL) and the Amended FY06 Intended Use Plan (IUP) for its wastewater construction loan program from the U.S. Environmental Protection Agency (EPA).

A public hearing to present the PPL and the IUP has been scheduled for Monday, April 3rd, 10:00 AM in Room 919, Galvez Building at 602 North Fifth Street, Baton Rouge, Louisiana 70802.

Copies of the PPL and IUP are available for inspection during office hours (8:00 AM – 4:30 PM, Monday – Friday) at LDEQ, Galvez Building, Financial Services, 9th Floor, 602 North Fifth Street, Baton Rouge, Louisiana 70802.

Interested parties may review the PPL and IUP and may make comments at the public hearing or may submit written comments to Margaret Bethea, LDEQ Financial Services Division, Loan Section, P. O. Box 4303, Baton Rouge, LA 70821-4303. Written comments must be received by close of business (COB) April 3, 2006.

VIII. RECORDS

The State of Louisiana will receive and review all project documents from assistance applicants. These documents, together with the State's review memos and checklists, will be filed in the official electronic project files maintained by the State. The project files and other CWSRF records located in the State offices shall be made available in accordance with public record laws and for EPA on-site visits scheduled as part of the annual review or audit of the CWSRF.

The State of Louisiana will retain the official project files and other CWSRF files in accordance with 40 CFR Part 31 and will otherwise arrange for the storage of files in accordance with Louisiana State Law and applicable Department Policy and Procedures.

IX. INTENDED USE PLAN AMENDMENT PROCEDURES

This IUP is being amended for material changes including adding the FFY06 allotment and additional projects resulting from Hurricanes Katrina and Rita. Because these revisions to this Intended Use Plan (IUP) are determined to be material a new public notice and EPA notification and approval are required. Other revisions to this IUP that are determined not to be material shall be made by the Division with notification to EPA or through EPA's required annual reporting.